

LIMITED OPERATING CHARGE  
(ANNUAL CHARGE)

The limited operating charge represents the portion of the cost of owning poles that is applied to the embedded pole costs to derive an annual cost of pole ownership that is consistent with the operating needs of the South Central Bell Telephone Company and Alabama Power Company.

The following components represent the limited operating charge and shall be used by both parties.

1. Depreciation	XX%
2. Income Taxes	XX%
3. Other Taxes	XX%
4. Cost of Capital	XX%
5. Maintenance	XX%
6. Administrative and General	XX%
Total	<u>XX%</u>

- Item 1: The depreciation rate of 4% is based on a 30 year depreciation and -20% salvage value. The rate is based on an average pole life of thirty years.
- Item 2: Income taxes are based on a combined federal and state incremental tax rate.
- Item 3: The rate for other taxes is determined by dividing the sum of property taxes, state unemployment compensation, franchise taxes, local use taxes, and miscellaneous taxes by the total investment in electric or telephone plant in service. Only the portion of property taxes, franchise taxes and miscellaneous taxes that are charged to electric or telephone operating expense are used in the calculations. Public utility license taxes, federal unemployment compensation, rental taxes, gross receipts taxes, etc. are not included.
- Item 4: The cost of capital is the short term cost of capital and is based on the weighted cost of preferred stock, bonds, and common equity.
- Item 5: Maintenance expense is divided into two components. The portion that is attributable to maintenance supervision and engineering is determined by dividing the total maintenance supervision and engineering expense by the total distribution plant investment. The second component is determined by dividing the sum of maintenance expenses for poles, towers, and fixtures and 63.5% of total line clearing and trimming expenses by the total investment in poles, towers, and fixtures.
- Item 6: The rate for administrative and general expenses is determined by dividing the total administrative and general expenses by the total investment in electric or telephone plant in service.

The limited operating charge to be applied to Alabama Power Company owned poles and the limited operating charge to be applied to South Central Bell Telephone Company owned poles for the rental years 1984 through 1988 are as follows:

1984 - 1988 Limited Operating Charge

	<u>SCBTCO</u>	<u>APCO</u>
1. Depreciation		
2. Income Taxes		
3. Other Taxes		
4. Cost of Capital		
5. Maintenance		
6. Administrative and General		

Exception:

The limited operating charges will be reviewed annually by both parties prior to April 1 of each year. If during any year after the April 1 review, any one or more components change by more than two percent each from the above listed limited operating charges, the limited operating charge for the company for which the change occurred shall be adjusted to the revised value for the next rental year and the remainder of the five year period for which this Appendix B is in effect or until another change of more than two percent in one or more components occurs.

Example:

During 1986, South Central Bell Telephone Company's income taxes increased from the established rate of [REDACTED] to [REDACTED]. Since the change in the income tax component was [REDACTED] (which is less than 2%), the Limited Operating Charge for South Central Bell Telephone Company will not change from the established [REDACTED]. During 1987, South Central Bell Telephone Company's income taxes further increased to [REDACTED] (which is 2.1% above the stated income tax component of [REDACTED]). Therefore, for the 1988 pole rental, the South Central Bell Limited Operating Charge will be [REDACTED].

PRORATED RESPONSIBILITY OF MAINTAINING  
A JOINT USE POLE

Joint Use Pole Height - 40 Ft.

- A. Space Allocated APCO [REDACTED]
- B. Space Allocated Telephone [REDACTED]
- C. Commonly Allocated Space [REDACTED]

$$\text{APCo share (\%)} = \frac{[REDACTED]}{40} \times 100$$

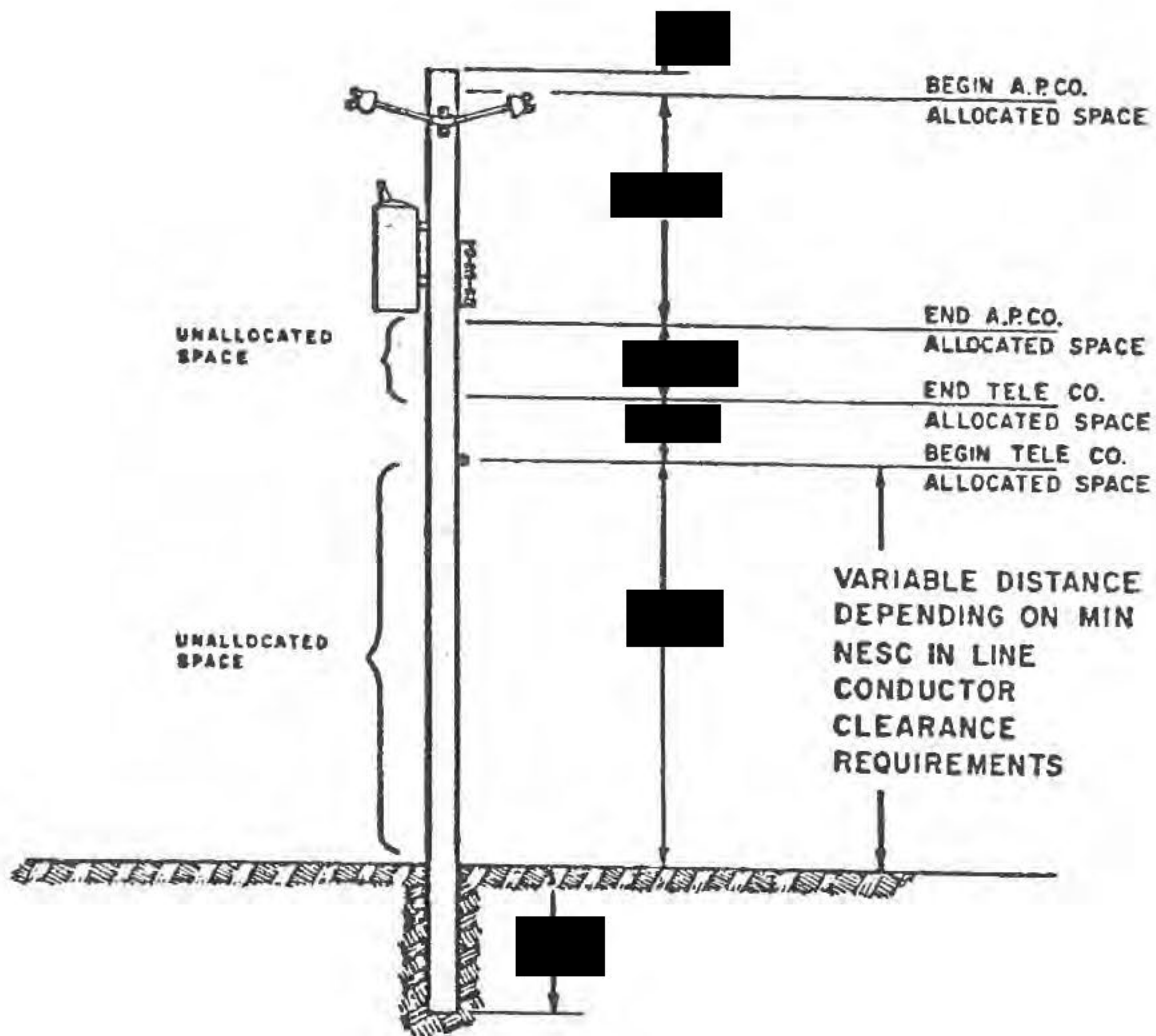
" [REDACTED]

$$\text{Telephone share (\%)} = \frac{[REDACTED]}{40} \times 100$$

" [REDACTED]

SPACE ALLOCATIONS ON STANDARD

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40 FT. JOINT USE POLEAPCo. Space $\frac{1}{2}$  Cost of Commonly Allocated Space

Space at Top of Pole

Total APCo. Space

Telephone Co. Space

Total Telephone Co. Space

 $\frac{1}{2}$  APCo. Space = 

 $\frac{1}{2}$  Telephone Space =



## JOINT USE RENTAL RATE CALCULATIONS

1. Embedded APCo Owned Joint Use Pole Cost =

1984 - Embedded Pole Cost

= [REDACTED]

2. Embedded Telephone Owned Joint Use Pole Cost =

1984 - Embedded Pole Cost

= [REDACTED]

3. Cost to Each Party For a Joint Use Attachment

- A. Telephone Rental Payment for a Joint Use Attachment =
- 
- Embedded APCo owned joint use pole cost (Para. 1, above) x
- 
- APCo Annual Charge (Exhibit 3) x Telephone share of a joint use
- 
- pole (Exhibit 4)

$$\text{Pole Rental} = \frac{\text{Embedded Pole Cost}}{\text{Pole Cost}} \times \frac{\text{Annual Charge}}{\text{Charge}} \times \frac{\% \text{ Pole}}{\text{Space}}$$

[REDACTED]

- B. APCo Rental Payment for a Joint Use Attachment =
- 
- Embedded Telephone owned joint use pole cost (Para. 2, above) x
- 
- Telephone Annual Charge (Exhibit 3) x APCo share of a joint use
- 
- pole (Exhibit 4)

$$\text{Pole Rental} = \frac{\text{Embedded Pole Cost}}{\text{Pole Cost}} \times \frac{\text{Annual Charge}}{\text{Charge}} \times \frac{\% \text{ Pole}}{\text{Space}}$$

[REDACTED]

NOTE: Pole costs are 1984 estimated costs.

4. Net Rental to Be Billed For Joint Use Agreement =

(Number of APCo owned joint use poles x Telephone payment for  
joint use poles) - (Number of telephone owned joint use poles x APCo  
payment for joint use poles) = Net Payment

INTEREST CALCULATIONS FOR  
RETROACTIVE ADJUSTMENT PAYMENTS

Example 1: As a result of the April 15, 1989 reconciliation calculations in accordance with this Appendix B it is found that an additional [REDACTED] is due on the January 15, 1987 (end of year 1986) billing. Interest rates were [REDACTED] in 1987, [REDACTED] in 1988, and [REDACTED] in 1989. The amount due from the January 15, 1987 retroactive adjustment will be:

3.5

[REDACTED] [REDACTED]

Example 2: As a result of the April 15, 1989 reconciliation calculations in accordance with this Appendix B it is found that an overpayment of [REDACTED] was made on April 15, 1986 (end of year 1985) rental. Interest rates were 9.5% in 1986, 9.25% in 1987, 9.0% in 1988, and 8.0% in 1989. The amount to be refunded from the January 15, 1986 payment on April 15, 1989 will be:

11.5

[REDACTED] 3.5 =

[REDACTED]

Any amounts due or any refunds for overpayment for the other interim years will be calculated accordingly.

# EXHIBIT 4



# PUBLIC VERSION

## APPENDIX B

This Appendix, effective January 1, 1990, consisting of two (2) pages and two (2) Exhibits hereto, shall be used to determine the annual billing for the years 1989 through 1993 associated with the sharing of costs of owning and maintaining joint use poles. This Appendix shall be made a part of the Joint Use Agreement dated June 1, 1978 and shall supersede and replace the Appendix B which was effective January 1, 1984 and signed October 17, 1984.

In each of the years 1990 through 1994, the parties will mutually determine the amount of pole rental owed by each party to the other for the preceding year. The amount of annual rental owed to either party by the other shall be calculated by multiplying the number of joint use poles owned by that party by the appropriate annual rental rate. The party owing the larger amount to the other shall make a payment to the other which is equivalent to the net difference in the two amounts.

The number of joint use poles owned by each party at the end of any year subsequent to 1988 shall be determined by adding the quantities owned at the end of 1988 to the net additions for each of the years subsequent to 1988. Each party shall determine its net additions for each year and shall have the option to do so by informal tally or by estimation. The quantity of joint use poles owned by each party at the end of 1988 is as follows:

South Central Bell	157,835
Alabama Power Company	325,681

Each party's annual rental rate shall be computed annually by the following formula:

$$\text{Rate} = \text{PC} \times \text{LOC} \times \text{SA}$$

where,

PC	=	Average Embedded Pole Cost
LOC	=	for both parties
SA	=	APCo billing to SCB
SA	=	SCB billing to APCo

The limited operating charge (LOC) and the space allocation (SA) factors of the rate calculation for both parties shall remain constant throughout the five year period 1989 - 1993. Exhibits 1 and 2 provide details of the calculation of LOC and SA.

The average embedded pole cost (PC) for each party shall be computed annually based on actual pole cost experience. The computations shall be made by dividing the total investment in distribution wood poles by the total quantity of distribution wood poles. The total investment in distribution wood poles shall include the investment in pole reinforcement, if applicable. Sixty seven and one half per cent (67.5%) of the investment in concrete poles shall also be included in the pole investment, if applicable. This percentage has been determined to be approximately equal to 1.5 times the investment in equivalent wood poles. Separate calculations of average embedded pole cost (PC) shall be made annually for each party.

PUBLIC VERSION

Net rental payments will become due on January 1 of each year following a rental year and will become past due on April 16 of each year following a rental year. Interest at a rate equivalent to the weighted average prime rate of AmSouth Bank N.A. will begin to accrue on January 1 and shall be applied to any amounts not paid on or before January 15 following a rental year. Estimated rental payments may be made on or before January 15 to avoid interest accrual. If an estimated payment is made which is later determined to be less than the actual amount owed, interest shall be applied to the differential amount at the above rate. If the estimated payment is in excess of the actual amount owed, a refund will be made with interest, at the above rate, applied to the differential.

During 1993, a mutually conducted joint use pole count shall be performed. The cost of such count shall be shared equally as nearly as possible. Representatives of both companies will determine the exact methodology of the 1993 pole count prior to the end of 1992. If the parties cannot agree on the exact methodology, the count shall utilize the same methodology of grid sampling and field inspections as was used to perform the 1988 pole count.

A true-up of the net rental owed by either party to the other will be computed based on the results of the 1993 pole count. The true-up will actualize net payments based on number of joint use poles owned by each party. Any variation in joint use pole ownership resulting from the pole count as compared to the annual tallies or estimates will be assumed to be uniform over the five year period. Previously calculated rental rates for each interim year will be used in calculating any true-up rental. No adjustments will be made to any component of the rental rate calculation for any of the interim years.

Any true-up net rental owed by either party to the other which results from the 1993 pole count shall become due on January 1, 1994 and shall become past due on April 16, 1994. Any true-up rental owed by either party shall be subject to interest at a rate equivalent to the weighted average prime rate of AmSouth Bank N.A. Interest shall begin to accrue on January 1 of any year for which additional rental is owed by either party.

Approved:

ALABAMA POWER COMPANY

BY: R.M. Waters  
Manager - Distribution

DATE: March 29, 1990

SOUTH CENTRAL BELL TELEPHONE CO.

BY: B.M. Roberts

DATE: March 28, 1990



PUBLIC VERSION

APPENDIX B  
EXHIBIT 1

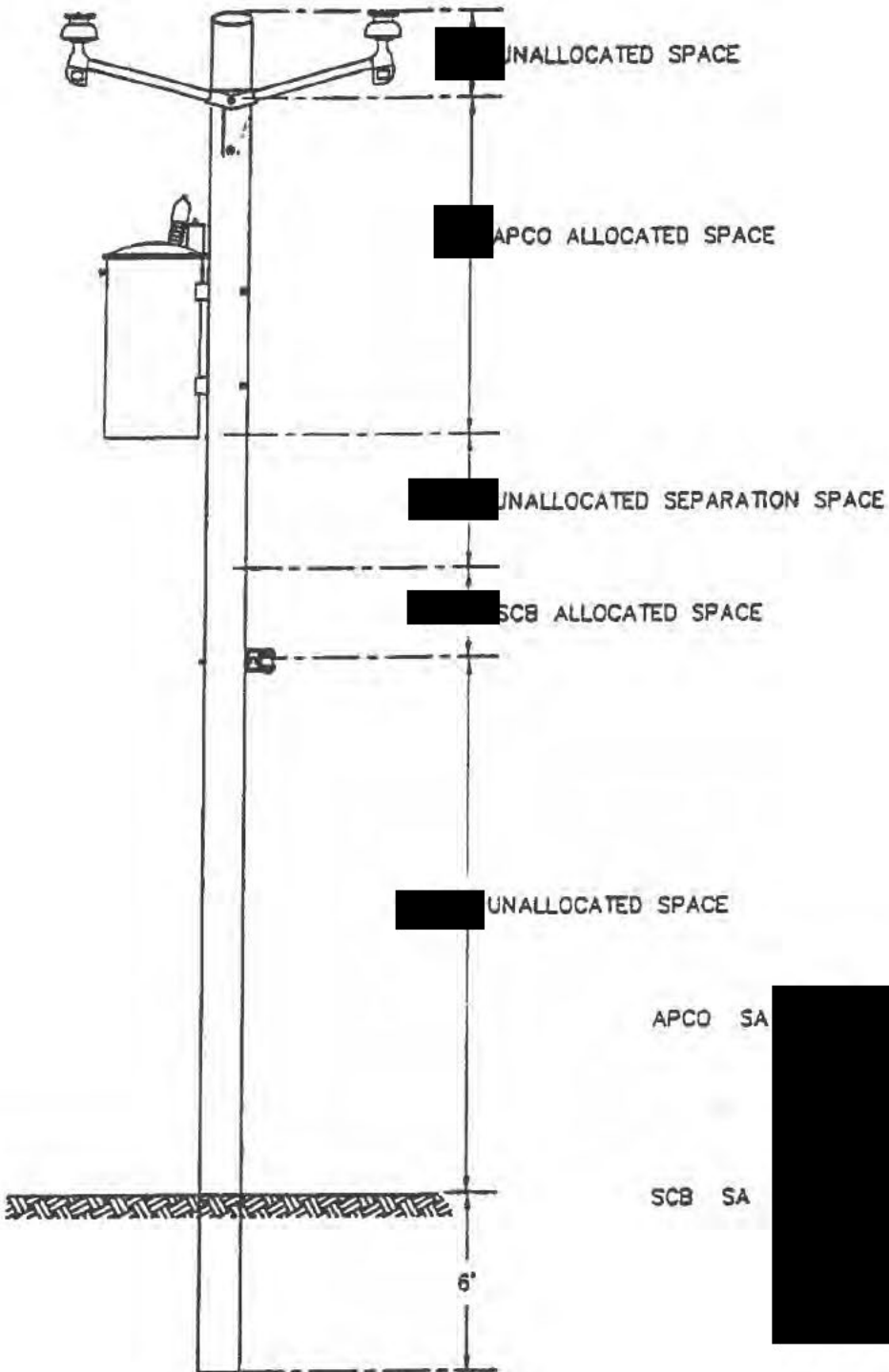
LIMITED OPERATING CHARGE (LOC)

The limited operating charge (LOC) for each company shall be the sum of six (6) individual component percentages. These components are listed below with the computed percentages of each company for 1988. Since each party's computed percentage for each component is different from the percentage of the other party, the smaller of the two percentages for each component is designated the selected percentage. The sum of the six selected percentages shall be the limited operating charge which will be used in the rate calculation of both companies.

	<u>1988 COMPUTED PERCENTAGE</u>		
	<u>APCO</u>	<u>SCB</u>	<u>SELECTED</u>
Cost of Capital			
Income Tax			
Maintenance			
Depreciation			
A & G			
Other Taxes			

In summary, the limited operating charge (LOC) shall be [REDACTED] or [REDACTED] in the computation of annual rental rate for each company during each of the rental years 1989 through 1993.

POLE SPACE ALLOCATION



# EXHIBIT 5

Agreement No. PDD-TC-2018-148  
Effective Date: March 7, 2018

## Pole License Agreement

by and between

**Redacted**

and

**ALABAMA POWER COMPANY**



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